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Alberta ECONOMIC OUTLOOK

JUNE, 1974

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EDMONTON

ALBERTA PROVINCIAL AFFAIRS

The Alberta Economy in Perspective

Accepting the view expressed in last month's **Economic Outlook** regarding "the uncertainty present in the international market place," it is nevertheless necessary to have a general idea of what direction the world's economies will take during 1974 and beyond, if one is to forecast the movements within the Canadian and the Alberta economies.

During 1974 a decline in the rate of real growth experienced by most of the major industrial nations of the world is expected. This decline follows the peaking of the various business cycles experienced in late 1973 or early 1974 and is in part due to the very uncertainty which we have mentioned. The high rate of inflation realized by most nations in 1973 coupled with the effects of a general political instability and the "energy crisis," are seen as further justifications for this forecast.

Due to the conjuncture of slowdowns some deterioration is anticipated in Canada's foreign trade balance. The fact that the Canadian economy is expected to grow at a higher rate than that of its trading partners (excluding Japan) lends further credence to this forecast.

The economic outlook for Canada's major trading partners follows:

- Real GNP growth in Britain is expected to slow to some 2% this year as compared to the rate of 6.7% experienced in 1973. The general price level meanwhile is anticipated to increase by almost 11% this year.
- Real GNP growth in Japan is expected to moderate to about 7% from a level of 10.5% last year. It must be remembered that this growth rate is only slightly above the 5 – 6% range considered a recession in Japan. Meanwhile prices are expected to rise by some 10.5% over their average level of 1973.

The outlook for the United States is also bleak with a real growth of only 0 to 1% forecasted by some analysts. Inflation will once again approach the double figures, a situation not atypical of the world's economics.

ALBERTA – NATIONAL AFFAIRS

Petroleum and Natural Gas

The April 22, 1974 edition of **Oilweek** presents some rather interesting statistics describing the current "energy crisis" in North America. Based on estimates by the Canadian Petroleum Association, American Petroleum Institute and the American Gas Association, North American production of oil and natural gas liquids reached 4.6 billion barrels in 1973, while the continent's proved reserves declined by 1.8 billion barrels leaving an estimated 10.9 years of supply based on 1973 production levels. North America's production of natural gas reached almost 25 trillion cubic feet, resulting in an estimated 12.1 years of remaining supply based on 1973 production levels.

In Canada, production of crude oil and gas liquids reached almost 740 million barrels resulting in a decline in proven reserves by about 450 million barrels (the fourth successive decline since 1969), leaving an estimated 12.6 years supply at 1973 production levels. Canada's natural gas production was approximately 2.3 trillion cubic feet in 1973, with reserves declining for the second straight year, to leave an estimated 22.6 years of supply. These figures compare favourably however, with those for the United States (excluding Alaska) whose life indexes for crude oil and natural gas declined to 8.2 and 9.7 years, respectively in 1973.

In exploration activity, between 1964 and 1973, Canada found 71.9 barrels of oil and equivalent per foot

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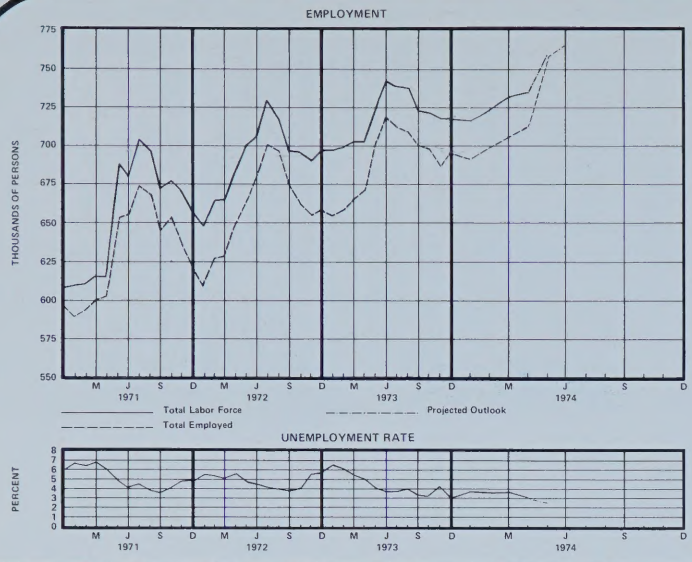
Alberta
INDUSTRY AND COMMERCE



EMPLOYMENT

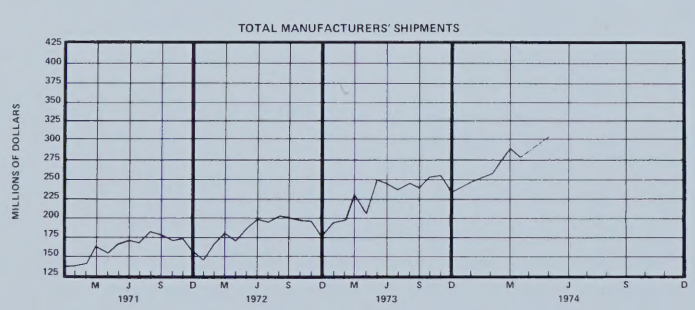
EMPLOYMENT	Actual Data				Forecast
	May/74	Apr./74	May/73	June/73	June/74
Labour force	757,000	734,000	729,000	740,000	768,000
Number employed	738,000	712,000	702,000	716,000	749,000
Number unemployed	20,000	22,000	27,000	24,000	19,000
Unemployment rate	2.6	3.0	3.7	3.2	2.5

Comments: Total employment in Alberta in May, 1974, was 26,000 higher than the previous month and 36,000 ahead of the May, 1973 figure. Prospects for July are very little change in either the number unemployed or the unemployment rate.

RETAIL TRADE
$ Millions

Retail Trade	April		%	Jan. – Apr.		%	Forecast
	1973	1974	Change	1973	1974	Change	May 1974
Value of Retail Trade in Alberta	242.1	297.4	22.8	921.8	1076.0	16.7	302.5

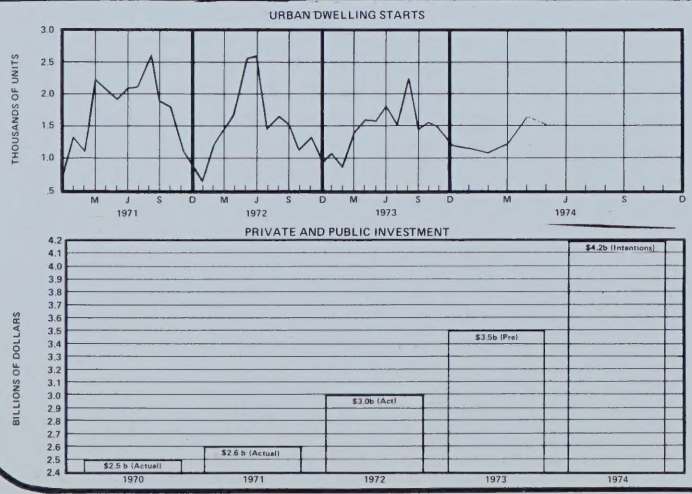
Comments: May's forecast is some 16 percent higher then May 1973. Prospects for June 1974, are for a further increase in value to approximately $313 million, representing almost a 16% increase over June's 1973 value.



MANUFACTURING SHIPMENTS
$ Millions

Manu-facturing Shipments	April		%	Jan. – Apr.		%	Forecast
	1973	1974	Change	1973	1974	Change	May 1974
Total manu-facturing shipments	217.1	276.3	27.3	845.1	1051.3	24.4	301.0

Comments: May's forecast calls for an increase of approximately 20 percent over the May 1973 figure. Prospects for June is for a slight absolute decline in value to approximately $296 million.

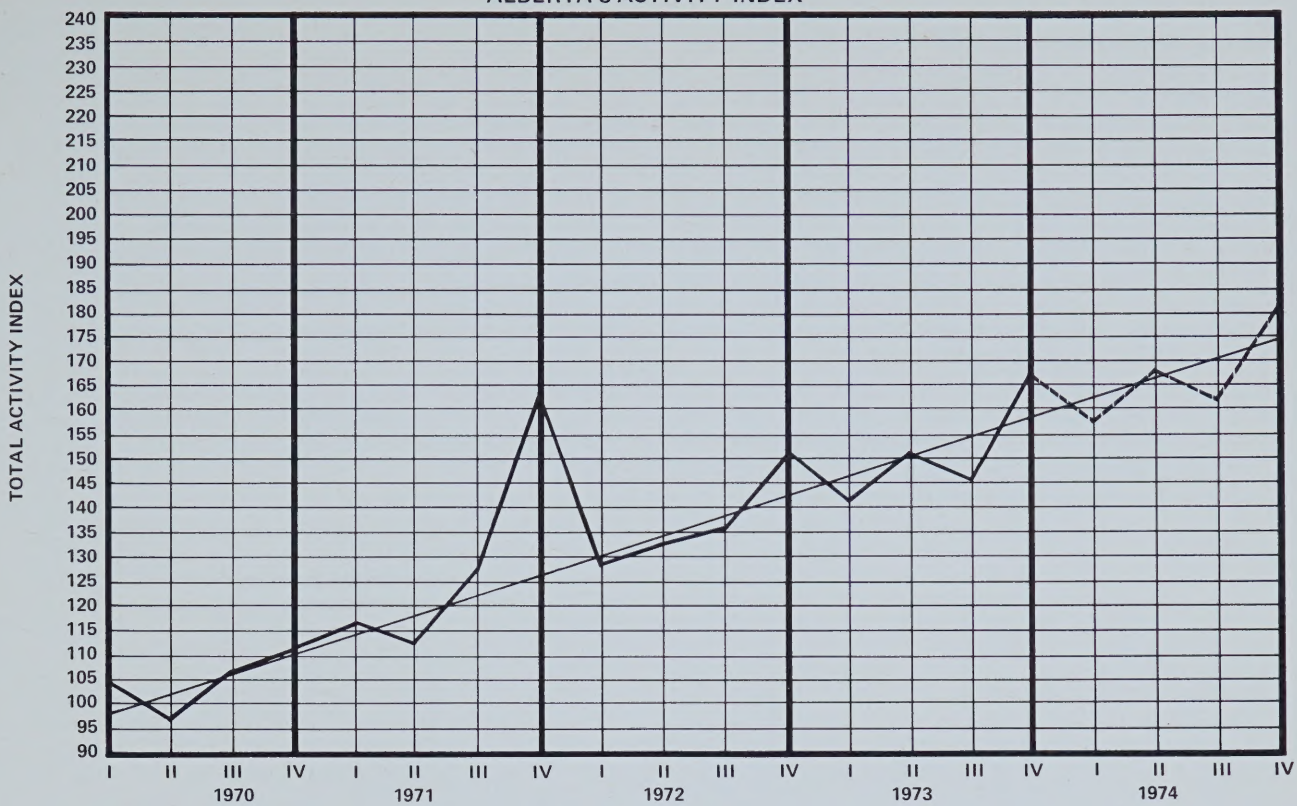


HOUSING

Urban Dwelling starts:	April		%	Jan. – Apr.		%	Forecast
	1973	1974	Change	1973	1974	Change	May 1974
Alberta total	1,605	1,648	+ 2.7	4,808	5,079	+ 5.6	1,500
Calgary total	710	824	+16.1	2,159	2,552	+18.2	–
Edmonton total	733	503	- 31.4	2,026	1,837	- 9.3	–

Comments: Mortgage Financing was reported as very limited in both Calgary and Edmonton during May, with mortgage rates averaging between 11 and 12 percent for both centres. May's forecast is expected to be lower than May, 1973, but the 1974 cumulative total should still exceed that of one year ago.

ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity Total Year 1972 - 1971	Total Year 1973 - 1972	Year to Date 1974 - 1973	
MANUFACTURING				
Slaughtered Meat Production	+ 3.3	- 2.2	- 2.8	(Jan. — Apr.)
Slaughtered Meat Exported	+ 5.3	- 0.6	+ 3.5	(Jan. — Apr.)
Refinery Production	+21.4	+10.0	+ 16.4	(Jan. — Mar.)
Cement Production	+ 3.5	+ 7.8	- 1.2	(Jan. — Apr.)
MINING				
Oil Production	+20.8	+19.6	+ .69	(Jan. — Mar.)
Gas Production	+16.8	+ 7.3	+ 1.3	(Jan. — Feb.)
Footage Drilled	+21.9	+28.3	+ 1.5	(Jan. — Feb.)
Number of Wells Drilled	+13.1	+33.2	+ 54.2	(Jan. — Feb.)
Coal Production	+14.1	+ 2.9	+ 8.2	(Jan. — Feb.)
CONSTRUCTION				
Urban Dwelling Starts	- 15.4	- 7.2	+ 5.6	(Jan. — Apr.)
Rigid Insulation Board Shipments to Alberta	+ 5.9	- 1.7	+ 6.7	(Jan. — Apr.)
Value of Alberta Building Permits	+12.1	+20.0	+ 41.0	(Jan. — Apr.)
AGRICULTURE				
Grain Shipments	- 2.9	- 16.4	+ 7.2	(Jan. — May)
Livestock Marketed	- 1.6	- 6.4	N/A	(Jan.)
Farm Cash Receipts	+14.0	+32.3	+ 92.2	(Jan. — Apr.)
FORESTRY				
Lumber Production	+16.0	+33.6	+ 1.2	(Jan. — Mar.)
Lumber Sales	+ 5.7	+17.5	- 22.0	(Jan. — Mar.)
Lumber Exports	+24.7	+ 2.5	- 37.3	(Jan. — Apr.)
Pulpwood Production	+47.8	+46.6	+117.8	(Jan. — Apr.)

UNEMPLOYMENT RATE (unadjusted)	MAY 1974	APRIL 1974	MAY 1973	APRIL 1973
Canada	5.4	6.0	5.3	6.3
Alberta	2.6	3.0	3.7	4.3
CONSUMER PRICE INDEX (1961 = 100)				
Calgary—Edmonton	154.1	151.3	140.1	139.2

drilled, (ranging from 89.4 barrels in Alberta to 29.3 in Saskatchewan) which was nearly three times as much as the 25 barrels per foot found in the U. S. A. (excluding Alaska). Despite these encouraging results, exportation activity in Alberta is expected to decline in 1974, largely a result of the present uncertainty regarding future government energy policy.

Oilweek has forecast a nominal increase in Canadian petroleum production of 1 per cent in 1974, raising production from an estimated 2,161,000 barrels per day in 1973 to 2,167,000 barrels a day in 1974. Alberta's production is forecast to increase just slightly from 1,840,000 barrels per day in 1973 to 1,853,000 barrels per day in 1974. Total Demand for Canadian crude oil and pentanes plus, is forecast to increase by almost 3 per cent, representing an increased domestic consumption of nearly 30 per cent, but exports are forecast to decline by about 16 per cent in 1974.

Agriculture

Statistics Canada reports that Canadian realized net income of farm operators amounted to over $2,706 million in 1973, an increase of 26 per cent over the 1972 figure. Contributing to this increase was an estimated 24 per cent rise in realized gross income while farm cash receipts rose by almost 25 per cent. Operating expenses and depreciation charges however, also increased by 23 per cent during the past year. The leading causes of the rising expenses were increased rents, and feed and fertilizer costs. Alberta's farm income increased by more than the national average. Realized net income in Alberta increased by almost 50 per cent, realized gross income increased by almost 32 per cent and farm cash receipts were up by 33 per cent during 1973. Operating expenses and depreciation charges however, also increased by 21 per cent during 1973.

Forest Products

A meeting was held in Ottawa in late May to formally establish the Federal-Provincial Forest Industries Development Committee (FIDC).

The primary purpose of the FIDC is to harmonize, to the fullest extent possible, public policies affecting forest products industries in order to achieve optimum industrial development for the benefit of Canada. The orderly growth and development of our forest industry depends to a considerable extent on a strong presence in world markets. Discussions between Provinces and the Federal Government concerning mutual problems and policy options related to the industrial and trade development of forest industries will be the catalyst for the Committee's work. Recent discussions have touched on taxation policies, manpower problems, trade policies and pulp and paper prospects, to name a few.

The Committee is in the process of developing forecasts of production and consumption patterns for forest products. These forecasts will include estimates of Canada's potential share by product in various world markets. The result will allow planners to anticipate and read the shortages and surpluses of products by area. The shorter term forecasts will be revised annually and the longer term ones every three or four years. Consideration is being given to forecasts from other sources such as the United Nation's Food and Agriculture Organization and regular reviews will be held with the appropriate organizations in Canada.

ALBERTA – BUSINESS OUTLOOK

In the first quarter of 1974, Canada's Gross National Product rose to a seasonably adjusted level of $132.1 billion. This represents a nominal increase of 4.9% and a real increase of 1.7% over the result recorded in the last quarter of 1973. Inflation, however, continues to be of major concern with the GNP price deflator registering a first quarter increase of 3.2%. This compares unfavourably with the increase of 1.8% recorded in the last quarter of 1973.

Despite these strong first quarter results it is expected that economic growth will slow through the remainder of 1974, resulting in a slightly lower growth rate than was the case in 1973. Indeed, according to Robert Rene de Cotret of the Conference Board in Canada, the Canadian "economy has already entered a period of re-adjustment."

He bases this belief on the stated fact that "few indicators have appeared in early 1974 to suggest the resumption of strong growth." Housing starts for the six month period ending February 1974 were down some 9 per cent, seasonally adjusted, from the average of the previous six months. Railway carloadings, a fairly reliable indicator of industrial activity, were also approximately 3 per cent lower in the first nine weeks of this year vis a vis the same period last year. In addition, there has been a deceleration in the rate of growth of employment, and a strong rise in unit labour costs. The rise in labour costs is particularly significant, since it has historically been associated with supply shortages, production bottlenecks, and a general peaking of the business cycle.

M. de Cotret does not however believe that the downturn will be in the nature of a typical recession; rather, a gradual readjustment to a lower level of aggregate demand is anticipated.

Other highlights of M. de Cotret's forecast include:

- an increase in real output of about 4 per cent over its level of 1973,
- prices to increase by some 8 per cent on the basis of the GNP deflator and by close to 10 per cent on the basis of the Consumer Price Index,
- a slow rise in the unemployment rate to between 6 and 6½ per cent of the labour force by year end,
- a continual decline in the level of residential construction.

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